

Don't lose feel for the labour force'

Professor Tan Sri Dato' Dzulkifli Abd Razak

Comment

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THE latest Nobel Prize winners for Economics were reportedly awarded for their work on developing a theory that explains how many people will remain unemployed despite a large number of job vacancies.

In these economically difficult times, the choice of winners seems appropriate because the theory throws some light on why there are both vacant positions and unemployment at the same time, says the Royal Swedish Academy of Sciences.

"One conclusion is that more generous unemployment benefits give rise to higher unemployment and longer search times," says the academy. The winners' work resulted in the Diamond-Mortensen-Pissarides model, named after the three laureates, which is used to estimate how various factors can affect the labour market.

London School of Economics Professor Christopher Pissarides says: "One of the key things we found is that it is important to make sure that people do not stay unemployed for too long so they don't lose their feel for the labour force."

This statement certainly resonates with many who are now seeking employment.

Unemployment is a sensitive issue that has often resulted in finger-pointing all round.

And it is not confined to Malaysia. For example, this week, Korea released a report that could be beneficial to Malaysia as we frequently cited Korea as a benchmark, especially in the context of an advanced economy. For starters, only about 55 per cent of some 540,000 university graduates in Korea have found jobs between August 2009 and February this year.

Korea also reported that "rigidity of the labour market" is a cause of high youth jobless rate, citing the outcome of a recent survey by the Korea Employers Federation.

The survey found that 89 per cent of companies surveyed would increase their workforce by five per cent if the labour market became more flexible.

The report noted that the unemployment rate will likely continue unless Korea creates more quality jobs, a suggestion that is familiar to Malaysia. Even Korean conglomerates have allegedly been offering decreasing number of quality or high-paying jobs.

Based on information from the Federation of Korean Industries, the reduction is "from about 4.13 million in 1995 to 3.72 million in 2008; meanwhile, the number of graduates jumped from 330,000 to almost double (560,000) in the respective year – again a trend that Malaysia is familiar with.

Ironically, Korea's Small and Medium Enterprises (SMEs) are apparently still suffering from a labour shortage of some 250,000, according to the federation, said to be due to "a significant gap between expectations of young job seekers and the reality of SMEs".

Another interesting yet familiar highlight of the report is the problem of mismatch between employers' needs and job seekers' expectations. Korean universities reportedly have failed to quickly meet the demands of businesses for workers trained in "new" areas.

One example is the "new" industry for LEDs (light-emitting diodes) where the gap is about fourfold – 800 are trained as compared to the 5,000 highly skilled workers needed annually.

Some executives of the Korean electronics industry have already warned that they expect computer memory chip prices to drop until the first quarter of 2011 amid weak PC sales.

This has implications on jobs too. Uncertain economic outlook in the United States and Western Europe has been identified as the cause.

Among the Asian currencies in the past month, the Korean won is the strongest against the US dollar.

It is important to point out that all this happened against a rich and futuristic research and development (R&D) background that makes Korea what it is today. Korea has an R&D budget of 14.9 trillion won (RM0.0412 trillion).

In fact, the government plans to raise the funding for R&D over the next decade, through a Green-up 30

initiative to develop 30 core selected technologies.

This include infrastructure for low emission cars and bullet trains, as well as eco-friendly construction materials and environmentally friendly ships.

Over the years, Korea has made successful progress in the use of bullet trains, developed seawater desalination technologies and invented an icebreaker ship.

And it is stepping up efforts to foster future growth through the green initiatives.

All this seems to indicate the issues of unemployment and job creation may not be as easy as it sounds.

That said, we can take some comfort from what Pissarides has to say on the matter, when talking to the media in London recently: "The ways of dealing with this need not be expensive training – it could be as simple as providing work experience."

* The writer is the Vice-Chancellor of Universiti Sains Malaysia. He can be contacted at vc@usm.my

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